# Daily Comment

Confluence INVESTMENT MANAGEMENT

By Patrick Fearon-Hernandez, CFA, and Thomas Wash

**[Posted: February 10, 2026 — 9:30 AM ET]** Global equity markets are higher this morning. In Europe, the Euro Stoxx 50 is up 0.2% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed up 1.0%. Chinese markets were higher, with the Shanghai Composite up 0.1% and the Shenzhen Composite also up 0.1%. US equity index futures are signaling a higher open.

With 302 companies having reported so far, S&P 500 earnings for Q4 are running at $73.50 per share compared to estimates of $71.07, which is up 8.3% from Q4 2024. Of the companies that have reported thus far, 78.5% have exceeded expectations, while 16.6% have fallen short of expectations.

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The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our website. We highlight recent publications below with new items of the day in bold.

| Bi-Weekly Geopolitical Report | Asset Allocation Bi-Weekly | Asset Allocation Quarterly | Of Note |
|---|---|---|---|
| **"US Foreign Policy: Comparing the New vs. Old"** **(2/9/26)** + **podcast** | "The Erosion of Exorbitant Privilege" (2/2/26) + podcast | Q1 2026 Report | Confluence Mailbag<br>The Case for Hard Assets |

Have a question on the economy, markets, geopolitics, or other important topics? You can submit your queries to our monthly podcast, *Confluence Mailbag*! Submit your question to mailbag@confluenceim.com.

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Our *Comment* today opens with news that the White House this week will launch a major rollback of environmental regulations. We next review several other international and US developments that could affect the financial markets today, including an announcement of performance reviews for US defense contractors and growing investability issues for the Indonesian stock market.

**US Environmental Policy:** In an exclusive report this morning, the *Wall Street Journal* says the Trump administration this week will repeal the 2009 scientific finding that serves as the legal basis for federal greenhouse-gas regulation. The move will reverse the "endangerment finding" under which the federal government has limited emissions from power plants and autos. It will also end the regulatory requirements to measure, report, and certify compliance with emission standards.

- According to EPA chief Lee Zeldin, "This amounts to the largest act of deregulation in the history of the United States."
- Whether or not that's true, we would agree that the planned change, if implemented as reported, would be a significant deregulation with potentially far-reaching economic impacts.
- Given the US's large political constituency favoring policies to address climate change, especially among younger voters, the move could also increase polarization and affect the midterm Congressional elections in November.

**US Housing Policy:** Lawmakers are reportedly refusing to include the administration's proposed ban on institutional investors buying single-family homes in either of the two major housing bills currently making their way through Congress. The ban is generally opposed by free-market advocates, the financial industry, and the housing industry. Therefore, lawmakers reportedly may fear that tacking it onto either of the housing bills would scuttle the legislation that they have spent months developing. For now, financial and housing interests appear to be having their way.

**US Defense Industry:** Late last week, the Pentagon reportedly sent a letter to major defense contractors warning them to brace for sweeping performance reviews to identify companies that aren't fulfilling their contracts. The reviews apparently are to implement President Trump's January order threatening to cancel the contracts of underperforming defense companies that buy back their shares or pay dividends.

- The administration's approach to the defense industry has been complex. Shortly after President Trump's second inauguration last year, for example, he ordered significant cuts to the defense budget. The new order demonstrates his intent to squeeze efficiencies, improvement in quality, and faster turnaround times for weapons purchases — all at the expense of defense industry investors, if necessary. On the other hand, the president has recently called for a massive 50% increase in US military spending.
- As our longtime readers know, we have had a positive view of global defense stocks for the last few years. Because of the administration's tough stance toward the defense industry, we have been more positive on defense firms outside the US. The Pentagon's new warning seems to validate that stance. All the same, we are closely watching to gauge whether a big increase in the defense budget will offset any of the financial challenges implied by the tougher contract scrutiny.

**United States-Taiwan:** The *Financial Times* late yesterday scooped that the White House's forthcoming tariff plan for advanced computer chips will include exemptions for chips from Taiwan Semiconductor Manufacturing Co. based on how much the firm invests in new US fabrication facilities. The plan would aim to strike a balance between imposing tariffs to encourage domestic chip manufacturing and removing obstacles to US hyperscalers building new data centers for artificial intelligence.

**United States-Canada:** In a post on social media yesterday, President Trump said he will block the opening of the new Gordie Howe International Bridge linking Canada and Detroit unless the US "is fully compensated for everything we have given them, and also, importantly, Canada treats the United States with the Fairness and Respect that we deserve."

- The bridge, which is reportedly close to completion and has been paid for fully by Canada, was supported by the president during his first term as a way to relieve congestion in the vital US-Canada trade corridor.
- The president's last-minute demands likely constitute an effort to squeeze concessions from the Canadian government ahead of this year's renegotiation of the USMCA trade agreement, despite the risk of worsening frictions between the US and its longstanding ally.

**United States-Cuba:** The Cuban government has reportedly told international airlines that it won't be able to supply them with jet fuel starting today. As a result, Air Canada has announced that it will suspend flights to the island, and other foreign airlines are likely to be affected as well. The disruption suggests that the US effort to cut fuel supplies to the island are having their intended effect of strangling Cuba's economy. However, it is still too early to know if the effort will force political change in Havana as intended.

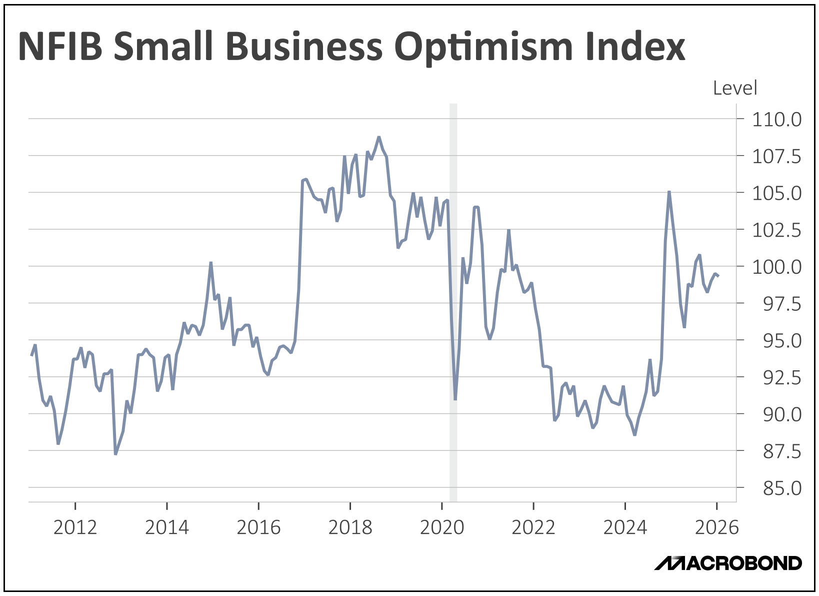
**China:** The China Media Project, a research group, has issued a report showing that Alibaba's popular Qwen model has been built to say only positive things about China. The report is the latest in a series examining how China's increasingly popular open-source AI models have been manipulated for apparently political purposes. As China's models become more widely used, the result is likely to be a skewed portrayal of China around the globe.

**Indonesia:** Two weeks after index provider MSCI said it will downgrade Indonesia to a "frontier market" from an "emerging market," over investability and transparency issues, index provider FTSE Russell today said it has postponed a review and update of its Indonesia exposures over uncertainty in determining the free float of the country's stocks. The blemishes on the Indonesian stock market threaten to limit how much it can benefit from investors' growing interest in international stocks.

**United Kingdom:** Following our note yesterday about Prime Minister Starmer being pressed to resign over scandals including the naming of an Epstein associate as ambassador to the US, a meeting of Labour Party lawmakers yesterday reportedly offered him strong support, reducing the risk of a forced resignation for the time being. Nevertheless, Starmer's political position continues to weaken, suggesting it will be increasingly difficult for him to drive policy initiatives in the near term.

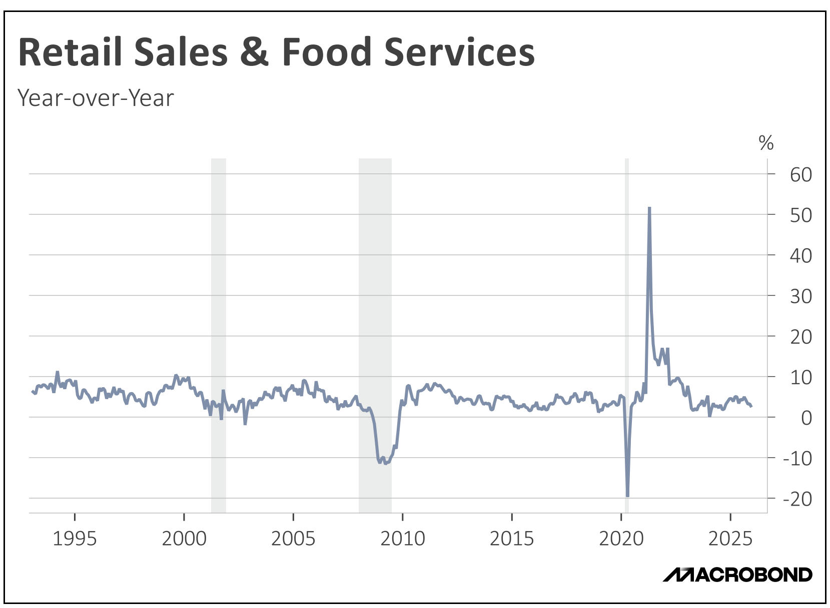
## US Economic Releases

The NFIB Small Business Optimism Index edged lower in January, slipping from 99.5 to 99.3, just missing the 99.9 consensus expectation. This dip reflects mounting concerns over labor quality and escalating insurance premiums. However, overall sentiment remains historically high; notably, the share of firms expecting higher real sales volume was the fastest-growing component among the index's 10 metrics.

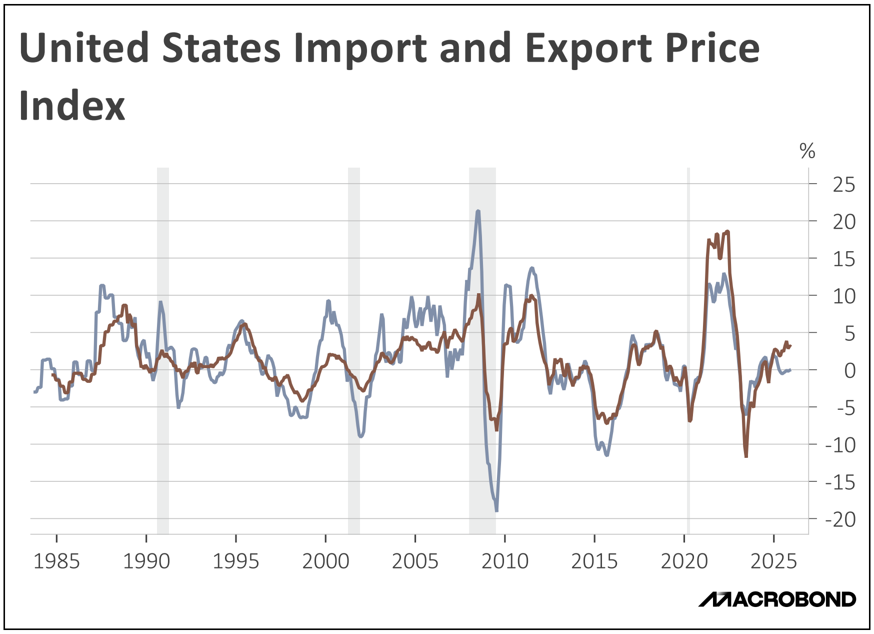



As the chart above illustrates, the index has experienced fluctuations since 2011, but the latest reading shows that upward momentum remains as firms gain greater confidence in the overall economy.

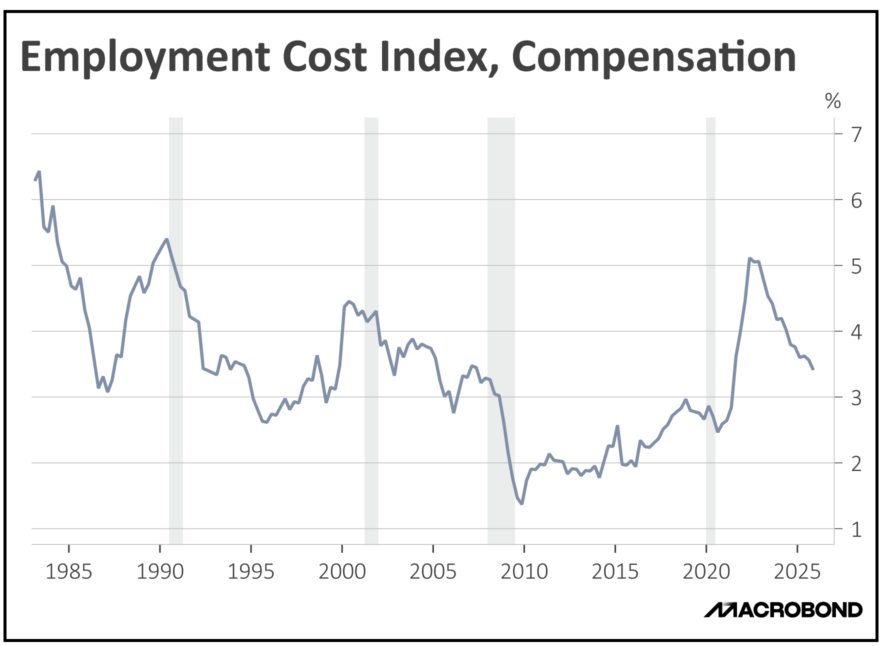
December retail sales were relatively unchanged, well below the expected gain of 0.4%. Of course, overall retail sales are often driven by the volatile auto and auto parts sector, which makes up almost one-fifth of the total. December retail sales excluding autos and auto parts were also unchanged, below their expected rise of 0.4%. The chart below shows how retail sales have changed since just before the Great Financial Crisis.



December import prices were unchanged from the same month one year earlier, versus expectations they would rise 0.2%. December export prices were up 3.1% from one year earlier. The chart below compares the year-over-year change in U.S. export and import prices over recent decades.




Finally, the fourth-quarter Employment Cost Index (ECI) rose by a seasonally adjusted 0.7%, slightly below expectations that it would rise by the same 0.8% as in the third quarter. The subindex on wages and salaries rose 0.7%, while the subindex on benefits also rose 0.7%.



The chart above shows the year-over-year change in the ECI since just before the Great Financial Crisis. Compared with the same period one year earlier, the overall ECI in the fourth quarter was up 3.4%. The subindex on wages and salaries was up 3.4% year-over-year as well, while the subindex on benefits was up 3.5%.

The table below lists the economic releases and Fed events scheduled for the rest of the day.

| Economic Releases | | | | | | |
|---|---|---|---|---|---|---|
| **EST** | **Indicator** | | | **Expected** | **Prior** | **Rating** |
| **10:00** | Business Inventories | m/m | Nov | 0.2% | 0.3% | * |
| **Federal Reserve** | | | | | | |
| **EST** | **Speaker or Event** | **District or Position** | | | | |
| **12:00** | Beth Hammack Speaks on Banking and Economic Outloook | President of the Federal Reserve Bank of Cleveland | | | | |
| **13:00** | Lorie Logan Speaks at Asset Management Derivatives Forum | President of the Federal Reserve Bank of Dallas | | | | |

## Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant; thus, we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do shift over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

| Country | Indicator | | | Current | Prior | Expected | Rating | Market Impact |
|---|---|---|---|---|---|---|---|---|
| **ASIA-PACIFIC** | | | | | | | | |
| **Japan** | Money Stock M2 | y/y | Jan | 1.6% | 1.7% | | ** | Equity and bond neutral |
| | Money Stock M3 | y/y | Jan | 1.0% | 1.1% | | ** | Equity and bond neutral |
| | Machine tool orders | y/y | Jan P | 25.3% | 10.9% | | ** | Equity and bond neutral |
| **Australia** | Westpac Consumer Conf SA | m/m | Feb | -2.6% | -1.7% | | ** | Equity and bond neutral |
| | Westpac Consumer Conf Index | m/m | Feb | 90.5 | 92.9 | | ** | Equity and bond neutral |
| | NAB Business Confidence | m/m | Jan | 3 | 2 | | *** | Equity and bond neutral |
| | NAB Business Conditions | m/m | Jan | 7 | 9 | | *** | Equity and bond neutral |
| **EUROPE** | | | | | | | | |
| **France** | ILO Unemployment Rate | q/q | Q4 | 7.9% | 7.7% | 7.7% | * | Equity and bond neutral |
| **AMERICAS** | | | | | | | | |
| **Mexico** | Vehicle Production | y/y | Jan | 303980 | 243961 | | * | Equity and bond neutral |
| **Brazil** | IBGE Inflation IPCA | y/y | Jan | 4.44% | 4.26% | 4.43% | *** | Equity and bond neutral |

## Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

| Fixed Income | Today | Prior | Change | Trend |
|---|---|---|---|---|
| **3-mo T-bill yield (bps)** | 358 | 359 | -1 | Down |
| **U.S. Sibor/OIS spread (bps)** | 364 | 364 | 0 | Down |
| **U.S. Libor/OIS spread (bps)** | 362 | 362 | 0 | Down |
| **10-yr T-note (%)** | 4.18 | 4.20 | -0.02 | Down |
| **Euribor/OIS spread (bps)** | 198 | 200 | -2 | Down |
| **Currencies** | **Direction** | | | |
| Dollar | Flat | | | Down |
| Euro | Flat | | | Up |
| Yen | Down | | | Down |
| Pound | Down | | | Up |
| Franc | Flat | | | Up |

## Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

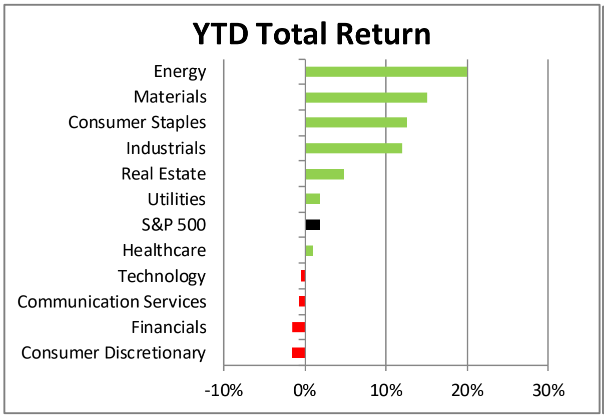
| | Price | Prior | Change | Explanation |
|---|---|---|---|---|
| **Energy Markets** | | | | |
| Brent | $69.18 | $69.04 | 0.20% | |
| WTI | $64.38 | $64.36 | 0.03% | |
| Natural Gas | $3.15 | $3.14 | 0.25% | |
| Crack Spread | $24.50 | $25.01 | -2.04% | |
| 12-mo strip crack | $25.75 | $25.98 | -0.90% | |
| Ethanol rack | $1.78 | $1.78 | 0.10% | |
| **Metals** | | | | |
| Gold | $5,044.76 | $5,057.80 | -0.26% | |
| Silver | $82.07 | $83.40 | -1.60% | |
| Copper Contract | $591.40 | $596.25 | -0.81% | |
| **Grains** | | | | |
| Corn contract | $429.25 | $428.75 | 0.12% | |
| Wheat contract | $527.00 | $528.75 | -0.33% | |
| Soybeans contract | $1,113.75 | $1,110.75 | 0.27% | |
| **Shipping** | | | | |
| Baltic Dry Freight | 1,895 | 1,923 | -28 | |
| **DOE Inventory Report** | | | | |
| | **Actual** | **Expected** | **Difference** | |
| Crude (mb) | | -0.64 | | |
| Gasoline (mb) | | 0.76 | | |
| Distillates (mb) | | -1.08 | | |
| Refinery run rates (%) | | -0.55% | | |
| Natural gas (bcf) | | -378 | | |

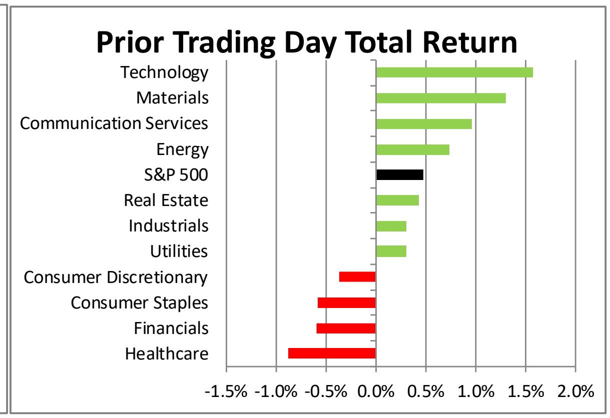
## Weather

The 6-to-10-day and 8-to-14-day forecasts currently call for warmer-than-normal temperatures from the Rocky Mountains to the East Coast, with cooler-than-normal temperatures in the Pacific region. The outlook calls for wetter-than-normal conditions everywhere but the Deep South where conditions will be normal-to-dry.

## Data Section

### **US Equity Markets** – (as of 2/9/2026 close)

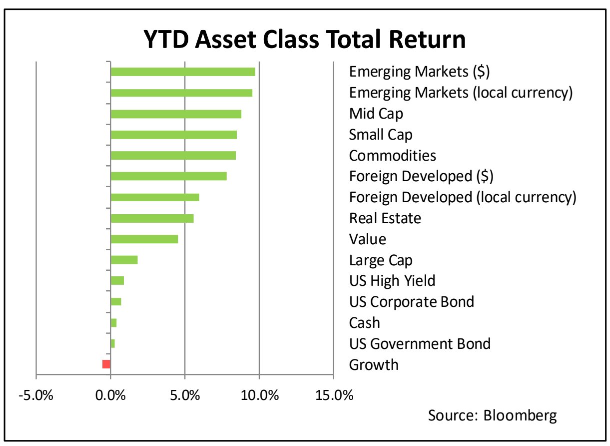



*(Source: Bloomberg)*

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

### **Asset Class Performance** – (as of 2/9/2026 close)

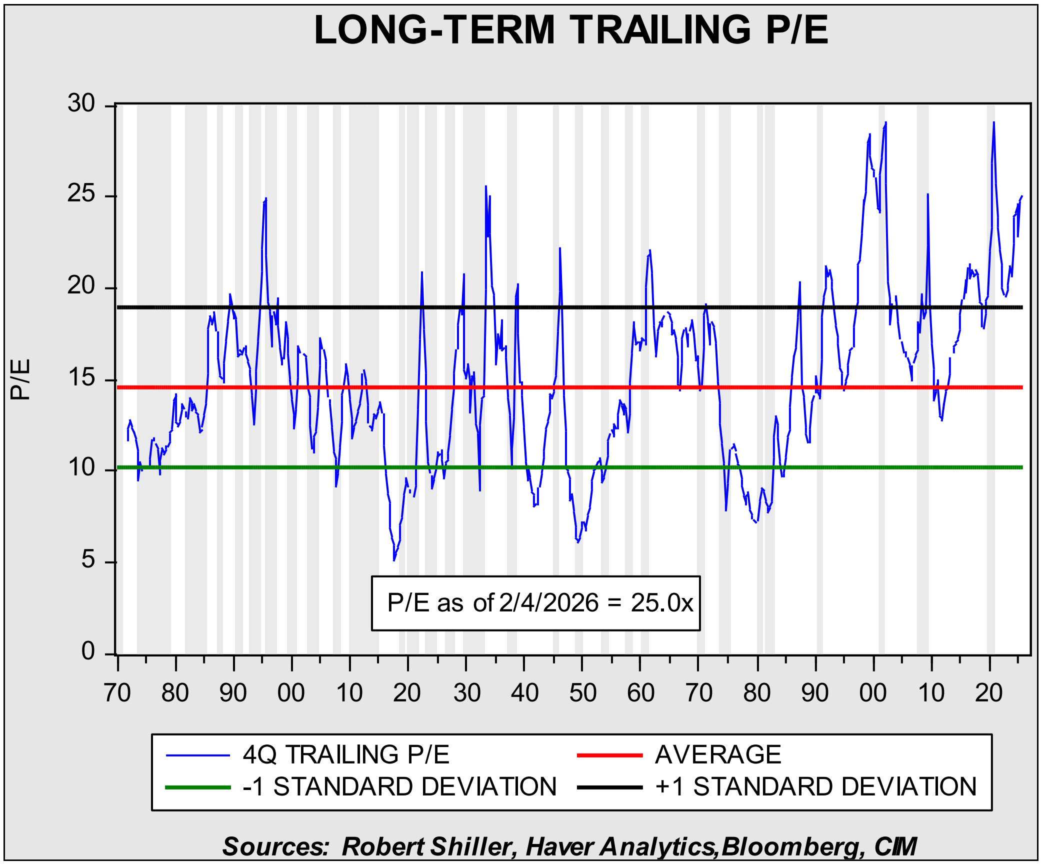



This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx $ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx $ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

## P/E Update

February 5, 2026




Based on our methodology,[1] the current P/E is 25.0x, down 0.1 from the previous report. Last week, the stock price index was relatively slightly while earnings were revised upward.

*This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.*

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[1] This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters ( Q1, Q2, Q4) and one estimate (Q3). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.